

OSAGE MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF OSAGE  
INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2004 AND 2003

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Osage Municipal Utilities  
A Component Unit of the City of Osage

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gordon Anderson	Trustee-Chairman	Dec 2006
Adriane McKinley	Trustee	Dec 2004
Steve Swenson	Trustee	Dec 2008
Marilyn O'Connor	Trustee	Dec 2009
Mark Flatley	Trustee	Dec 2009
Dennis Fannin	General Manager	Indefinite
Paula Ross	Board Secretary	Indefinite
Jane Michels	Cashier	Indefinite
Beverly Miller	Treasurer	Jan 2006

Osage Municipal Utilities  
A Component Unit of the City of Osage

City of Osage

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steven Cooper	Mayor	Jan 2008
Allan Smalley	Council Member	Jan 2008
Joel Voaklander	Council Member	Jan 2008
Rick Bodensteiner	Council Member	Jan 2008
Kelvin Palsic	Council Member	Jan 2006
Harlan Bremer	Council Member	Jan 2006
Brian Adams	Council Member	Jan 2006
Cathy Penney	City Clerk	Jan 2006
Beverly Miller	City Treasurer	Jan 2006
Richard Gross	City Attorney	Jan 2006
Jerry Dunlay	Director of Public Works	Jan 2006
John Michels	Park Commissioner	Jan 2010
David Stanley*	Park Commissioner	Jan 2008
John LaCoste	Park Commissioner	Jan 2006
Della Cordle	Library Trustee	Jul 2008
Mary Fox	Library Trustee	Jul 2008
Johanna Anderson	Library Trustee	Jul 2007
Herb Wright	Library Trustee	Jul 2006
Dr. Richard Boeke	Library Trustee	Jul 2006
Tom Thome	Library Trustee	Jul 2005
Mary Ann Carmody	Library Trustee	Jul 2005

\* David Stanley resigned in May of 2003, Don Fox appointed.

## Independent Auditors' Report

To the Board of Trustees Osage Municipal Utilities  
A Component Unit of the City of Osage

We have audited the accompanying component unit financial statements of the business type activities, each major fund and the aggregate remaining fund information of the Osage Municipal Utilities, a component unit of the City of Osage, Iowa, as of and for the years ended December 31, 2004 and 2003, listed as exhibits in the table of contents of this report. These component unit financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these component unit financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned component unit financial statements present fairly, in all material respects, the financial position of the Osage Municipal Utilities and the results of its operations and the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 18, during the year ended December 31, 2004, the Utilities adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated January 21, 2005 on our consideration of the Osage Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 10 and 24 through 26 are not required parts of the component unit financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the aforementioned component unit financial statements taken as a whole. The supplemental information included in Schedules 1 through 11, is presented for purposes of additional analysis and is not a required part of the component unit financial statements. Such information, except for that portion marked "unaudited" (Schedules 7, 8, 9, 10 and 11) on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the aforementioned component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned component unit financial statements taken as a whole.

Lines Murphy & Company, P.L.C.  
Osage, Iowa  
January 21, 2005

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Osage Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal years ended December 31, 2004 and 2003. We encourage readers to consider this information in conjunction with the component unit financial statements, which follow.

Because the Utilities are implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the Utilities' financial position and results of operations.

### 2004 FINANCIAL HIGHLIGHTS

- Operating revenues of the Utilities' business type activities increased 13.0%, or approximately \$813,000, from fiscal 2003 to fiscal 2004.
- Operating expenses increased 12.7%, or approximately \$742,000, in fiscal 2004 from fiscal 2003.
- The Utilities' total net assets increased 75%, or approximately \$375,000, from December 31, 2003 to December 31, 2004. Of this amount, the assets of the Light and Power Division increased approximately \$186,000, the net assets of the Gas Division increased by approximately \$24,000, and the net assets of the Telecom Division increased \$165,000.

#### Electric Utility Results of Operations:

Financial results for 2004 exceeded expectations. Net income recorded for 2004 of almost \$186,000 compared to budgeted net income of just over \$35,000. Retail electric sales were more than \$126,000 greater than in 2003, due primarily to a 4% increase in kWh sales. The Electric Utility, as owner of the new broadband infrastructure, recognized initial operating lease income of \$100,000 from the Communications Utility for use of the system.

Electric Utility total expenses for 2004 were higher by almost \$198,000, or 6.7% more than in 2003. A portion of the increase in operating expenses can be attributed to a more than 2% increase in the wholesale cost of purchased power. Also, for the first time, OMU recorded more than \$46,000 as the value of services-in-kind provided to the City of Osage.

#### Gas Utility Results of Operations:

The Gas Utility ended the years 2004 and 2003 with positive changes in net assets (\$23,524 in 2004 and \$66,101 in 2003). While revenue from retail natural gas sales increased by \$360,000, or 15.6% from the previous year, the wholesale cost of natural gas, representing more than 75% of total operating expenses, rose by more than \$343,000, or 19% over 2003. Osage residents consumed less than 2% more natural gas than in the previous year. OMU's largest industrial customers accounted for 28% of total 2004 natural gas sales.

The expense of maintaining the gas distribution system rose by only 1% from 2003. As noted above for the Electric Utility, OMU has likewise, for the first time, recorded for the Gas Utility a charge of almost \$14,000 as the value of services-in-kind contributed to the City of Osage.

## Communications Utility Results of Operations:

Calendar year 2004 represented only the second full year of operations for the Communications Utility, ending the year with a net gain of \$165,843. This is an improvement of almost 74% over the results for 2003. As the business grew, total operating revenues were up 16% from 2003, while operating expenses were up by only 11%. Operating results for the Communications Utility continue to improve.

During the third quarter of 2004, OMU responded to a competitive threat from a wireless broadband service provider by offering wireless Internet service to rural customers within a 10-mile radius of Osage. The response from our rural dial-up Internet customers was immediate, allowing us to retain almost our entire rural dial-up Internet customer base.

## USING THIS ANNUAL REPORT

The annual report consists of a series of component unit financial statements and other information as follows:

Management's Discussion and Analysis introduces the component unit financial statements and provides an analytical overview of the Utilities' financial activities. Because the Utilities is a component unit of the City of Osage, which maintains its books on a cash basis and has a different fiscal year end, the Government-wide Financial Statements are not included in this report. Copies of the primary government financial statements are located with the City Clerk of the City of Osage.

The Fund Financial Statements tell how business type services were financed in the short term as well as what remains for future spending.

Notes to Enterprise Fund Financial Statements provide additional information essential to a full understanding of the data provided in the component unit financial statements.

Required Supplementary Information further explains and supports the component unit financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the nonmajor enterprise funds. In addition, it provides more detail on operating revenues and expenses, changes in capital assets, and information required by the bond resolution.

## Basis of Accounting

The Utilities maintains its financial records on the accrual basis of accounting and the component unit financial statements of the Utilities are prepared on that basis. Capital assets are recorded at cost and depreciated over their useful lives. Inventory is valued at lower of cost (first-in, first-out) or market. More detail is provided in the Notes to Enterprise Fund Financial Statements.



## REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

### Fund Financial Statements

Proprietary funds are used to account for the Utilities' enterprise activities.

The Utilities' maintain two Enterprise Funds to provide separate information for the electric, and gas funds, considered to be major funds of the Utilities. Four Enterprise Funds are used to account for the Telecom Division of the Utilities. They are Internet, Cable, Telephony, and Rural Wireless and are included in the column titled Other Nonmajor Enterprise Funds.

The required component unit financial statements for accrual basis proprietary funds include a balance sheet or statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The condensed statement of net assets, shown below, shows how assets and liabilities have changed over the past two years. Capital assets, net of depreciation decreased from 2003 to 2004. This decrease was due to the fact that the Utilities did not purchase enough new assets to keep up with depreciation. Total assets increased by approximately \$323,000. Total liabilities decreased by approximately \$52,000, which, when coupled with the increase in total assets, creates a \$375,000 increase in net assets from the prior year.

Condensed Statement of Net Assets		
	Years Ended December 31,	
	2004	2003
Current and Other Assets	\$ 4,986,700	\$ 4,383,790
Capital Assets	13,256,767	13,537,163
<b>Total Assets</b>	<b>\$ 18,243,467</b>	<b>\$ 17,920,953</b>
Long-term Liabilities	\$ 5,505,000	\$ 5,825,000
Other Liabilities	1,332,639	1,065,346
<b>Total Liabilities</b>	<b>\$ 6,837,639</b>	<b>\$ 6,890,346</b>
Net Assets:		
Reserved:		
Debt Service	\$ 215,000	\$ 215,000
Sinking Fund	148,022	148,022
System Improvement	100,000	100,000
Unreserved	10,942,806	10,567,585
<b>Total Net Assets</b>	<b>\$ 11,405,828</b>	<b>\$ 11,030,607</b>

### INDIVIDUAL MAJOR ENTERPRISE FUND ANALYSIS

As the Osage Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$11,405,828, an increase of more than \$375,000 above last year's total of \$11,030,607. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Light and Power Division net assets increased \$185,854 from the prior year to \$8,650,816. Net assets increased by \$185,854 to \$8,650,816, attributed to a healthy increase in operating income compared to operating expenses. The initial recognition of \$100,000 from the Communications Utility for use of the new broadband system owned by

the Electric Utility, contributed to the increase in operating income. This initial operating lease income, as well as future lease income from the Communications Utility, is intended to provide the Electric Utility with the means to repay the debt that was incurred to build the broadband infrastructure.

- The Gas Division net assets increased by \$23,524 to \$2,072,131 during the fiscal year. Cash and cash equivalents decreased by \$104,944 to \$822,011. Although the cost of natural gas increased by 19% in 2004, the average revenue collected per unit of natural gas sold rose by only 13%. So, in spite of the fact that cash collected from customers did not keep pace with the rapid rise in cost of natural gas, a mere 1% increase in gas distribution expenses enabled OMU to derive a modest (customer friendly) net income of \$23,524. Similarly, cash reserves decreased to the extent that cash collected from customers was not sufficient to support the cost of operations.
- The Telecom Division net assets increased by \$165,842 to \$682,880 during the fiscal year. Cash and cash equivalents increased by \$224,493 to \$509,998. These increases were due to the simultaneous growth in new subscribers and, due to the economies of scale associated with a growing customer base, a lesser increase in operating costs. The number of telephone customers rose by 13% compared to the count at year-end 2003. Likewise, the number of cable TV and high-speed Internet customers climbed by 14% and 36%, respectively. Due to the fact that 2004 operating revenues increased by 16% while operating expenses increased by only 11%, operating income was enabled to grow by 64% to \$176,334.

The following analysis focuses on the change in net assets for the combined three divisions of the Osage Municipal Utilities.

	Changes in Net Assets of Enterprise Funds	
	Years ended December 31,	
	2004	2003
Operating Revenues	\$ 7,041,458	\$ 6,228,887
Operating Expenses	<u>6,543,391</u>	<u>5,801,329</u>
Operating Income	\$ 498,067	\$ 427,558
Net Non-Operating (Expenses)	(114,485)	(38,663)
Other Financing (Uses)	<u>(8,361)</u>	<u>-</u>
Change in Net Assets	\$ 375,221	\$ 388,895
Net Assets-Beginning of Year	<u>11,030,607</u>	<u>10,641,712</u>
Net Assets-End of Year	<u><u>\$ 11,405,828</u></u>	<u><u>\$ 11,030,607</u></u>

## CAPITAL ASSETS

At December 31, 2004 the Utilities had invested \$13,256,767, net of accumulated depreciation in a broad range of capital assets, including land, buildings, generating, equipment and telecommunications equipment. This represents a net decrease from last year of 2%. The decrease was due to depreciation charged to assets. Depreciation expense for the year was \$767,197.

The largest change in capital asset activity during the year was in Light and Power Division for acquisition of generating equipment and lines.

Capital Assets, Net of Depreciation				
	Light and Power Division December 31, 2004	Gas Division December 31, 2004	Telecom Division December 31, 2004	Total December 31, 2004
Land	\$ 52,294	\$ 18,606	\$ -	\$ 70,900
Buildings	512,216	481,981	4,868	999,065
Equipment	11,352,776	304,673	529,353	12,186,802
Totals	<u>\$ 11,917,286</u>	<u>\$ 805,260</u>	<u>\$ 534,221</u>	<u>\$ 13,256,767</u>

## DEBT ADMINISTRATION

At December 31, 2004, the Utilities had approximately \$5,825,000 in bonds and other long-term debt, compared to approximately \$6,100,000 last year, as shown below.

Outstanding Debt at Year-End			
	December 31,		
	2004	2003	
General Obligation Bonds	\$ 400,000	\$ 400,000	
Revenue Bonds	5,425,000	5,700,000	
Total	<u>\$ 5,825,000</u>	<u>\$ 6,100,000</u>	

Debt decreased as a result of annual principal payments.

## ALWAYS WITH THE CUSTOMER IN MIND

OMU's customer/owners have come to expect nothing but the best in terms of receiving exceptional service and reliability delivered at a reasonable price. As a public utility, we have the challenge, as well as the obligation, to provide electricity, natural gas and communication services to our customers by the most cost-efficient means possible.

Through participation in various regional electric and natural gas rate surveys, we are pleased to report that OMU consistently ranks very favorably. Not only are our retail rates significantly below the national averages, but among Iowa's 137 municipal electric and 49 municipal gas utilities, typically the lowest cost providers of energy services, OMU residential electric and gas rates consistently rank among the top 25% and 33% respectively.

In spite of low rates, OMU gives back to the community by providing free services, which include street lighting, traffic signals, heating the water for the City's swimming pool, tree work and miscellaneous labor for a variety of City projects, as well as an annual cash transfer to the City of Osage's general fund.

The OMU Board of Trustees and management are proud of a long tradition of low electric and natural gas rates. However, they also realize that the cost increases and creeping inflation that have occurred since the last rate adjustments, electric in 1998 and gas in 2000, require that cost-of-service studies be conducted for both the Electric and Gas Utility sometime during 2005. OMU is committed to invest in the necessary capital improvements and major maintenance items on each distribution system to continue delivering the utmost in reliable products and services.

Like electric and natural gas rates, cable television, telephone and Internet rates are also typically lower with local ownership. In Osage, rates for these services have not changed since they were first offered in late 2002 and all consumers of communication services in the Osage area continue to benefit from the competitive nature of the Osage marketplace.

#### CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dennis Fannin, General Manager, 720 Chestnut Street, Osage, Iowa.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Balance Sheets – Enterprise Funds

	Light and Power Division December 31,	
	2004	2003
Assets		
Current Assets		
Cash (Note 1)	\$ 1,194,349	\$ 1,096,843
Investments	214,900	214,900
Inventories (Note 1)	362,003	252,857
Other Investments	30	30
Accounts Receivable - Trade, Net	337,274	299,038
Accounts Receivable - Unbilled (Note 1)	177,949	183,133
Accounts Receivable - Miscellaneous	122,019	17,013
Accrued Interest Receivable	69	38
Prepaid Expenses	18,610	17,597
Total Current Assets	<u>\$ 2,427,203</u>	<u>\$ 2,081,449</u>
Capital Assets, Net (Note 1)	<u>\$ 11,917,286</u>	<u>\$ 12,247,299</u>
Other Assets		
Bond Discount	\$ 97,580	\$ 97,580
Less Accumulated Amortization	38,921	31,366
	<u>\$ 58,659</u>	<u>\$ 66,214</u>
Prepaid Warranty	\$ 55,000	\$ 55,000
Less Accumulated Amortization	55,000	55,000
	<u>\$ -</u>	<u>\$ -</u>
Prepaid Contract Fee	\$ 40,000	\$ 40,000
Less Accumulated Amortization	26,666	22,666
	<u>\$ 13,334</u>	<u>\$ 17,334</u>
Net Other Assets	<u>\$ 71,993</u>	<u>\$ 83,548</u>
Total Assets	<u><u>\$ 14,416,482</u></u>	<u><u>\$ 14,412,296</u></u>
Liabilities and Fund Equity		
Excess of Checks Written	\$ -	\$ -
Customer Meter Deposits	11,898	14,087
Purchased Power Payable	93,739	83,327
Natural Gas Payable	-	-
Accounts Payable and Other Liabilities	92,283	17,858
Accrued Wages and Employee Benefits	32,609	32,694
Customer Budget Billing	5,363	1,232
Unearned Revenue	-	-
Payable to the City of Osage	83,468	75,877
Accrued Interest	21,306	22,259
Current Portion of Long Term Debt	285,000	275,000
Total Current Liabilities	<u>\$ 625,666</u>	<u>\$ 522,334</u>
Long Term Debt		
General Obligation Bonds, Net of Current Portion	\$ -	\$ -
Revenue Bonds, Net of Current Portion	5,140,000	5,425,000
Total Long Term Debt	<u>\$ 5,140,000</u>	<u>\$ 5,425,000</u>
Net Assets		
Reserved:		
Debt Service	\$ 215,000	\$ 215,000
Sinking Fund	148,022	148,022
System Improvement	100,000	100,000
Unreserved	8,187,794	8,001,940
Total Net Assets	<u>\$ 8,650,816</u>	<u>\$ 8,464,962</u>
Total Net Assets and Liabilities	<u><u>\$ 14,416,482</u></u>	<u><u>\$ 14,412,296</u></u>

See notes to financial statements.

# Exhibit A

Gas Division December 31,		Other Nonmajor Enterprise Funds Telecom Division December 31,		Total Enterprise Funds December 31,	
2004	2003	2004	2003	2004	2003
\$ 822,011	\$ 926,955	\$ 509,998	\$ 285,505	\$ 2,526,358	\$ 2,309,303
-	-	-	-	214,900	214,900
17,541	19,395	12,595	9,666	392,139	281,918
-	-	-	-	30	30
342,380	229,059	259,580	274,633	939,234	802,730
331,292	264,477	11,503	17,058	520,744	464,668
1,543	-	-	-	123,562	17,013
-	-	-	-	69	38
177,112	190,190	1,949	1,855	197,671	209,642
<u>\$ 1,691,879</u>	<u>\$ 1,630,076</u>	<u>\$ 795,625</u>	<u>\$ 588,717</u>	<u>\$ 4,914,707</u>	<u>\$ 4,300,242</u>
<u>\$ 805,260</u>	<u>\$ 829,371</u>	<u>\$ 534,221</u>	<u>\$ 460,493</u>	<u>\$ 13,256,767</u>	<u>\$ 13,537,163</u>
\$ -	\$ -	\$ -	\$ -	\$ 97,580	\$ 97,580
-	-	-	-	38,921	31,366
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,659</u>	<u>\$ 66,214</u>
\$ -	\$ -	\$ -	\$ -	\$ 55,000	\$ 55,000
-	-	-	-	55,000	55,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ 40,000	\$ 40,000
-	-	-	-	26,666	22,666
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,334</u>	<u>\$ 17,334</u>
\$ -	\$ -	\$ -	\$ -	\$ 71,993	\$ 83,548
<u>\$ 2,497,139</u>	<u>\$ 2,459,447</u>	<u>\$ 1,329,846</u>	<u>\$ 1,049,210</u>	<u>\$ 18,243,467</u>	<u>\$ 17,920,953</u>
\$ -	\$ -	\$ 4,928	\$ -	\$ 4,928	\$ -
25,313	28,580	7,946	8,091	45,157	50,758
-	-	-	-	93,739	83,327
255,175	239,094	-	-	255,175	239,094
35,496	29,330	150,019	7,292	277,798	54,480
21,773	19,890	10,806	41,981	65,188	94,565
87,251	93,946	-	-	92,614	95,178
-	-	71,996	73,538	71,996	73,538
-	-	-	-	83,468	75,877
-	-	1,270	1,270	22,576	23,529
-	-	35,000	-	320,000	275,000
<u>\$ 425,008</u>	<u>\$ 410,840</u>	<u>\$ 281,965</u>	<u>\$ 132,172</u>	<u>\$ 1,332,639</u>	<u>\$ 1,065,346</u>
\$ -	\$ -	\$ 365,000	\$ 400,000	\$ 365,000	\$ 400,000
-	-	-	-	5,140,000	5,425,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 365,000</u>	<u>\$ 400,000</u>	<u>\$ 5,505,000</u>	<u>\$ 5,825,000</u>
\$ -	\$ -	\$ -	\$ -	\$ 215,000	\$ 215,000
-	-	-	-	148,022	148,022
-	-	-	-	100,000	100,000
2,072,131	2,048,607	682,881	517,038	10,942,806	10,567,585
<u>\$ 2,072,131</u>	<u>\$ 2,048,607</u>	<u>\$ 682,881</u>	<u>\$ 517,038</u>	<u>\$ 11,405,828</u>	<u>\$ 11,030,607</u>
<u>\$ 2,497,139</u>	<u>\$ 2,459,447</u>	<u>\$ 1,329,846</u>	<u>\$ 1,049,210</u>	<u>\$ 18,243,467</u>	<u>\$ 17,920,953</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Statements of Revenues, Expenses and  
Changes in Net Assets – Enterprise Funds

	Light and Power Division Years ended December 31,	
	2004	2003
Operating Revenues		
Charges for Service	\$ 2,972,629	\$ 2,722,374
Operating Expenses		
Business Type Activities	2,658,425	2,449,676
Operating Income	\$ 314,204	\$ 272,698
Non-Operating Revenues (Expenses)		
Interest Income	\$ 20,783	\$ 20,551
Interest Expense	(266,275)	(277,060)
Other Income	125,503	211,196
Total Non-Operating Revenues (Expenses)	\$ (119,989)	\$ (45,313)
Other Financing Sources (Uses)		
Operating Transfers In	\$ -	\$ -
Operating Transfers Out	-	-
Loss on Disposal of Capital Asset	(8,361)	-
Total Other Financing Sources (Uses)	\$ (8,361)	\$ -
Change In Net Assets	\$ 185,854	\$ 227,385
Net Assets-Beginning of Year	8,464,962	8,237,577
Net Assets-End of Year	\$ 8,650,816	\$ 8,464,962

See notes to financial statements.

Exhibit B

Gas Division		Other Nonmajor Enterprise Funds Telecom Division		Total Enterprise Funds	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2004	2003	2004	2003	2004	2003
\$ 2,696,983	\$ 2,323,681	\$ 1,371,846	\$ 1,182,832	\$ 7,041,458	\$ 6,228,887
2,689,454	2,276,232	1,195,512	1,075,421	6,543,391	5,801,329
\$ 7,529	\$ 47,449	\$ 176,334	\$ 107,411	\$ 498,067	\$ 427,558
\$ 16,232	\$ 18,877	\$ 4,899	\$ 3,262	\$ 41,914	\$ 42,690
(265)	(225)	(15,390)	(15,264)	(281,930)	(292,549)
28	-	-	-	125,531	211,196
\$ 15,995	\$ 18,652	\$ (10,491)	\$ (12,002)	\$ (114,485)	\$ (38,663)
\$ -	\$ -	\$ 90,000	\$ 110,000	\$ 90,000	\$ 110,000
-	-	(90,000)	(110,000)	(90,000)	(110,000)
-	-	-	-	(8,361)	-
\$ -	\$ -	\$ -	\$ -	\$ (8,361)	\$ -
\$ 23,524	\$ 66,101	\$ 165,843	\$ 95,409	\$ 375,221	\$ 388,895
2,048,607	1,982,506	517,038	421,629	11,030,607	10,641,712
\$ 2,072,131	\$ 2,048,607	\$ 682,881	\$ 517,038	\$ 11,405,828	\$ 11,030,607



Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Statements of Cash Flows – Enterprise Funds

	Light and Power Division	
	Years ended December 31,	
	2004	2003
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 2,836,512	\$ 2,700,636
Cash Payments to Suppliers for Goods and Services	(1,568,929)	(1,803,220)
Cash Payment to Employees for Goods and Services	(386,115)	(295,935)
Cash Payments for Contributions	(46,669)	-
Net Cash Provided by Operating Activities	<u>\$ 834,799</u>	<u>\$ 601,481</u>
Cash Flows from Non-capital Financing Activities:		
Transfers from Other Funds	\$ -	\$ -
Transfers to Other Funds	-	-
Miscellaneous Non-operating Income	125,503	211,196
Net Cash Provided (Used) by Non-capital Financing Activities	<u>\$ 125,503</u>	<u>\$ 211,196</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	\$ (341,321)	\$ (230,515)
Principal Paid on Bonds	(275,000)	(260,000)
Interest Paid on Bonds	(267,228)	(277,954)
Net cash Used by Capital Related Financing Activities	<u>\$ (883,549)</u>	<u>\$ (768,469)</u>
Cash Flows from Investing Activities:		
Purchase of Investments	\$ -	\$ (6,986)
Proceeds from Sale of Investments	-	6,986
Investment Income	20,753	20,606
Net Cash Provided (Used) by Investing Activities	<u>\$ 20,753</u>	<u>\$ 20,606</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 97,506	\$ 64,814
Cash and Cash Equivalents at December 31, 2003	1,096,843	1,032,029
Cash and Cash Equivalents at December 31, 2004	<u><u>\$ 1,194,349</u></u>	<u><u>\$ 1,096,843</u></u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 314,204	\$ 272,698
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	662,973	648,596
Amortization	11,555	19,241
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	(138,059)	(24,252)
(Increase) Decrease in Inventory	(109,146)	6,720
(Increase) Decrease in Other Assets	(1,013)	(2,207)
Increase (Decrease) in Accounts Payable and Other Liabilities	94,285	(11,835)
Increase (Decrease) in Retainage Payable	-	(307,480)
Net Cash Provide by Operating Activities	<u><u>\$ 834,799</u></u>	<u><u>\$ 601,481</u></u>

See notes to financial statements.

Exhibit C

Gas Division		Other Nonmajor Enterprise Funds Telecom Division		Total Enterprise Funds	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2004	2003	2004	2003	2004	2003
\$ 2,512,037	\$ 2,281,062	\$ 1,390,767	\$ 1,009,788	\$ 6,739,316	\$ 5,991,486
(2,279,048)	(2,007,976)	(691,233)	(734,601)	(4,539,210)	(4,545,797)
(228,420)	(184,091)	(348,536)	(367,099)	(963,071)	(847,125)
(85,908)	(70,548)	(1,772)	-	(134,349)	(70,548)
\$ (81,339)	\$ 18,447	\$ 349,226	\$ (91,912)	\$ 1,102,686	\$ 528,016
\$ -	\$ -	\$ 90,000	\$ 110,000	\$ 90,000	\$ 110,000
-	-	(90,000)	(110,000)	(90,000)	(110,000)
28	-	-	-	125,531	211,196
\$ 28	\$ -	\$ -	\$ -	\$ 125,531	\$ 211,196
\$ (39,600)	\$ (49,345)	\$ (114,241)	\$ (56,165)	\$ (495,162)	\$ (336,025)
-	-	-	-	(275,000)	(260,000)
(265)	(225)	(15,391)	(15,265)	(282,884)	(293,444)
\$ (39,865)	\$ (49,570)	\$ (129,632)	\$ (71,430)	\$ (1,053,046)	\$ (889,469)
\$ -	\$ (20,550)	\$ -	\$ -	\$ -	\$ (27,536)
-	40,846	-	-	-	47,832
16,232	19,113	4,899	3,264	41,884	42,983
\$ 16,232	\$ 39,409	\$ 4,899	\$ 3,264	\$ 41,884	\$ 63,279
\$ (104,944)	\$ 8,286	\$ 224,493	\$ (160,078)	\$ 217,055	\$ (86,978)
926,955	918,669	285,505	445,583	2,309,303	2,396,281
\$ 822,011	\$ 926,955	\$ 509,998	\$ 285,505	\$ 2,526,358	\$ 2,309,303
\$ 7,529	\$ 47,449	\$ 176,334	\$ 107,411	\$ 498,067	\$ 427,558
63,711	64,333	40,513	35,704	767,197	748,633
-	-	-	-	11,555	19,241
(181,679)	(22,487)	20,607	(229,539)	(299,131)	(276,278)
1,854	4,612	(2,929)	(3,136)	(110,221)	8,196
13,078	(107,673)	(95)	(1,855)	11,970	(111,735)
14,168	32,213	114,796	503	223,249	20,881
-	-	-	(1,000)	-	(308,480)
\$ (81,339)	\$ 18,447	\$ 349,226	\$ (91,912)	\$ 1,102,686	\$ 528,016

Osage Municipal Utilities  
A Component Unit of the City of Osage

Notes to Enterprise Fund Financial Statements

(1) Summary of Significant Accounting Policies

The accompanying component unit financial statements of the City of Osage include the Light and Power Division, the Gas Division and the Telecom Division of the Osage Municipal Utilities. The Light and Power Division, the Gas Division and the Telecom Division of the Utilities were established under Chapter 388 of the Iowa Code and are governed by a separate Board of Trustees. Complete financial statements of the City of Osage, which issued separate financial statements, can be obtained from the City's administrative offices.

A. Reporting Entity

For financial reporting purposes, the Osage Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' component unit financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. The Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Utilities' component unit financial statements consist entirely of enterprise funds. All remaining enterprise funds are aggregated and reported as nonmajor enterprise funds.

The Utilities report the following major enterprise funds:

The Light and Power Fund accounts for the delivery of electricity to the citizens and businesses of Osage.

The Gas Fund accounts for the delivery of natural gas to the citizens and businesses of Osage.

C. Measurement Focus and Basis of Accounting

The accounts of the Utilities are organized as funds, which are considered to be separate accounting entities. The accrual basis of accounting is used by these enterprise funds.

### Cash

For purposes of the statement of cash flows, the Utilities define cash as demand deposits in bank, excluding certificates of deposit, as the intent is to hold them for major repairs or additions to the system. Cash also includes funds held in a segregated account in the Wisconsin Local Government Investment Pool through Western Wisconsin Municipal Power Group, Inc.

### Investments

Investments are stated at the lower of cost or market.

### Inventories

Inventories, which consist of fuel oil and materials for plant and distribution systems, are stated at the lower of cost (first-in, first-out) or market.

### Accounts Receivable - Unbilled

The Utilities accrue estimated, unbilled revenues for services rendered subsequent to the last billing date, and prior to year end. This amount is calculated based upon the number of days between the last billing period in December and the year end; multiplied by the amount of the first billing subsequent to year end.

### Capital Assets

Capital Assets are carried at cost. Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets. The cost of repairs and maintenance is charged to the expense when paid, while the cost of renewals or substantial improvements are capitalized. Depreciation expense was \$767,197 and \$748,633 in 2004 and 2003, respectively. Amortization expense for the year included a prepaid contract fee disclosed in Note 14, discounts disclosed in Note 3, and a prepaid warranty. Total amortization expense was \$11,555 and \$19,241 for the years ended December 31, 2004 and 2003, respectively. Amortization expense charged to operations for a prepaid warranty was \$0 and \$7,333 for the years ended December 31, 2004 and 2003, respectively.

The Telecommunications Division was established in 2001 and began operations in 2002 under Chapter 476.26 of the Iowa Code and is governed by the Board of Trustees. Substantial portions of the assets for the division were built by the Light and Power Division and are being leased by the Telecom Division.

## D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2004, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The Utilities maintain all deposits in bank accounts in the name of the Osage Municipal Utilities. The Utilities' deposits at December 31, 2004 and 2003 were entirely covered by federal depository insurance, collateralized with securities or letters of credit held by the Utilities or the Utilities' agent in the Utilities' name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities' investments are categorized to give an indication of the level of risk assumed by the Utilities at year end. The Utilities have funds on deposit with the Wisconsin Local Government Investment Pool as part of their Shared Transmission System Agreement with Dairyland Power Cooperative. According to the agreement, the funds can be drawn at any time, and have been drawn in the past. These deposits were \$106,737 and \$120,256 as of December 31, 2004 and 2003, respectively and are not subject to risk categorization. This Wisconsin Local Government Investment Pool is held outside the State of Iowa. All other Utility investments are category 1, which means the investments are insured or registered or the securities are held by the Utilities or its agent in the Utilities' name. Cash is used in order to invest in transmission improvements and to cover control center costs.

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation bonds and electric revenue bonds are as follows:

Year Ending Dec. 31,	General Obligation		Electric Revenue		Total	
	Bonds		Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 35,000	\$ 14,789	\$ 285,000	\$ 255,670	\$ 320,000	\$ 270,459
2006	40,000	13,686	300,000	243,520	340,000	257,206
2007	40,000	12,366	310,000	230,420	350,000	242,786
2008	40,000	10,956	325,000	216,775	365,000	227,731
2009	45,000	9,359	340,000	202,213	385,000	211,572
2010 - 2014	200,000	17,906	1,945,000	773,381	2,145,000	791,287
2015 - 2019	-	-	1,920,000	253,015	1,920,000	253,015
Total	\$ 400,000	\$ 79,062	\$ 5,425,000	\$ 2,174,994	\$ 5,825,000	\$ 2,254,056

Bond discount amortization was \$7,555 and \$7,907, respectively, for the years ended December 31, 2004 and 2003.

The resolution providing for the issuance of the revenue bonds includes the following provisions.

- (a) The bonds are payable from and secured by a pledge of the net revenues of the Municipal Electric Light and Power.
- (b) Sufficient monthly transfers shall be made to a sinking fund account for the purpose of making the bond principal and interest payments when due.
- (c) Sufficient monthly transfers shall be made to a reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund.
- (d) Sufficient monthly transfers shall be made to an improvement fund account to be used solely for the purpose of paying principal or interest on the bonds when there shall be insufficient money in the sinking fund and reserve fund; and to the extent not required for the foregoing to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, or capital improvements to the system.

(4) Changes in Long-Term Debt

A summary of long-term debt for the year ended December 31, 2004 is as follows:

	Light and Power Division	Telecom Division
Balance, Beginning of Year	\$ 5,700,000	\$ 400,000
Additions	-	-
Redemptions	(275,000)	-
Balance, End of Year	<u>\$ 5,425,000</u>	<u>\$ 400,000</u>

(5) Pension and Retirement Benefits

The Utilities contribute to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utilities are required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended December 31, 2004, 2003, and 2002 were \$49,688, \$48,652 and \$41,295, respectively, equal to the required contributions for each year.

(6) Contingencies

The Utilities' operations are subject to regulations promulgated and administered by the Iowa Department of Natural Resources (IDNR) and the Environmental Protection Agency (EPA). The complexity of these regulations results in many areas of uncertainty and requires interpretation. The IDNR and/or the EPA may question various utility interpretations. If the Utilities' interpretations do not prevail, there could be adverse effects.

For the years ended 2004 and 2003, the balance in (CABS) Carrier Access Billings Systems Accounts Receivable was \$254,984 and \$176,488, respectively. It is a balance due from other phone companies for the use of local lines. The exact amount of use is currently under dispute with Qwest. It is possible that the Utility will not collect the full amount. The amount that may be uncollectible has been estimated at \$88,301.

(7) Compensated Absences

The Utilities' employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are recognized as expenses in the year incurred. The Utilities' liability for employees' benefits at December 31, are as follows:

<u>Type of Benefit</u>	<u>2004</u>	<u>2003</u>
Vacation	<u>\$28,530</u>	<u>\$30,652</u>

This liability has been computed based on rates of pay as of December 31, 2004 and 2003, respectively.

Sick leave time is cancelled when an employee leaves his or her employment with the Utilities.

(8) Interfund Transfers

The detail of interfund transfers for the year ended December 31, 2004 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise:	Enterprise:	
Rural Wireless	Internet	<u>\$90,000</u>

(9) Related Party Transactions

The Utilities had business transactions totaling \$2,621 and \$116 between the Utilities and the Utilities' employees and/or officials during the years ended December 31, 2004 and 2003, respectively.

(10) Risk Management

The Osage Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assume liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Fair Value of Financial Instruments

The Utilities are required to disclose the estimated fair values for all financial instruments for which it is practicable to estimate fair value. For instruments including cash, accounts receivable and payable and accruals, it was assumed that the carrying amounts approximated fair value because of their short maturities. The carrying amounts of long-term debt, which matures through the year 2018, are also assumed to approximate their fair value.

(12) Use of Estimates

The preparation of component unit financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(13) Partial Self-funded Insurance

The Utilities use a partially self-funded dental/vision insurance program. Maximum potential costs of the program include medical benefits with limits of \$600 per covered family for a total of \$12,600 and \$12,600 for the years ending December 31, 2004 and 2003, respectively. Actual submitted claims total \$10,752 and \$9,949 for the years ending December 31, 2004 and 2003, respectively. Actual utilization rate is 85% and 79% for the fiscal years ended December 31, 2004 and 2003, respectively. Any remaining liability has been submitted and accrued.

(14) Forward Contracts

In the normal course of business, there are outstanding commitments which are not reflected in the balance sheets. In order to protect its customers from the volatility of natural gas prices, the Utilities have entered into forward contracts. There are five contracts to purchase a total of 30,000 MCF (1,000 cubic feet) at an average price of \$6.413 for a total of approximately \$192,400. These contracts will be used to price the gas to the customers when completed.

(15) Commitments

Purchase

The Utilities entered into a long-term contract to purchase electricity from Alliant Energy. In connection with the contract, the Utilities paid expenses of \$40,000 that will be amortized over the life of the contract. Amortization expense charged to operations was \$4,000 and \$4,000 for the years ending December 31, 2004 and 2003, respectively.

Contributions

In the year ended December 31, 2004 and 2003, the Utilities made contributions of \$500 and \$0, respectively, to the Drug Abuse Resistance Education program.



(16) Leases

The Light and Power and Gas Divisions lease a postage meter under a four-year operating lease requiring quarterly payments beginning on April 29, 2003. At December 31, 2004 future minimum lease payments are as follows:

Year ending December 31,	
2005	\$ 102
Total	\$ 102

The Light and Power and Gas Divisions lease pagers on a month-to-month lease. The lease payments paid were \$662 and \$777 for the years ending December 31, 2004 and 2003, respectively.

(17) Joint Lease Agreement

The Light and Power Division built a Fiber Optic System for information transmission. Portions of the system are leased to the Telecom Division under a thirty-year operating lease, requiring approximate annual payments of \$154,380 beginning on December 31, 2005. At December 31, 2004, \$100,000 had been included in Accounts Payable and future minimum lease payments are as follows:

Year Ending December 31,	Payments
2005	\$ 54,380
2006	154,380
2007	154,380
2008	154,380
2009	154,380
2010 - 2014	771,900
2015 - 2019	771,900
2020 - 2024	771,900
2025 - 2029	771,900
2030 - 2034	771,900
Total	\$ 4,531,400

(18) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended December 31, 2004. The statements create new basic financial statements for reporting the Utilities' financial activities. The financial statements now include fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. In addition, the method for reporting cash flows has been changed from the indirect method to the direct method. Certain reclassifications have been made to the 2003 Combining Balance Sheets and Combining Statements of Cash Flows to conform to this method.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Budgetary Comparison Schedule of Receipts, Disbursements and  
Changes in Balances-Budget and Actual Enterprise Funds

Required Supplementary information

Year ended December 31, 2004

	Light and Power Division	Gas Division	Telecom Division
Receipts:			
Use of Money and Property	\$ 20,783	\$ 16,232	\$ 4,899
Charges for Service	2,972,629	2,696,983	1,371,846
Miscellaneous	125,503	28	-
Total receipts	<u>\$ 3,118,915</u>	<u>\$ 2,713,243</u>	<u>\$ 1,376,745</u>
Disbursements:			
Business Type Activities	<u>\$ 2,924,700</u>	<u>\$ 2,689,719</u>	<u>\$ 1,210,902</u>
Total disbursements	<u>\$ 2,924,700</u>	<u>\$ 2,689,719</u>	<u>\$ 1,210,902</u>
Excess of Receipts over Disbursements	\$ 194,215	\$ 23,524	\$ 165,843
Other Financing Uses, Net	<u>(8,361)</u>	<u>-</u>	<u>-</u>
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	\$ 185,854	\$ 23,524	\$ 165,843
Balances Beginning of Year	<u>8,464,962</u>	<u>2,048,607</u>	<u>517,038</u>
Balances End of Year	<u>\$ 8,650,816</u>	<u>\$ 2,072,131</u>	<u>\$ 682,881</u>

See accompanying independent auditors' report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 41,914	\$ 38,300	\$ 38,300	\$ 3,614
7,041,458	7,189,803	7,189,803	(148,345)
125,531	48,618	48,618	76,913
<u>\$ 7,208,903</u>	<u>\$ 7,276,721</u>	<u>\$ 7,276,721</u>	<u>\$ (67,818)</u>
<u>\$ 6,825,321</u>	<u>\$ 7,214,602</u>	<u>\$ 7,214,602</u>	<u>\$ 389,281</u>
<u>\$ 6,825,321</u>	<u>\$ 7,214,602</u>	<u>\$ 7,214,602</u>	<u>\$ 389,281</u>
\$ 383,582	\$ 62,119	\$ 62,119	\$ 321,463
<u>(8,361)</u>	<u>-</u>	<u>-</u>	<u>(8,361)</u>
\$ 375,221	\$ 62,119	\$ 62,119	\$ 313,102
<u>11,030,607</u>	<u>7,944,349</u>	<u>7,944,349</u>	<u>3,086,258</u>
<u>\$ 11,405,828</u>	<u>\$ 8,006,468</u>	<u>\$ 8,006,468</u>	<u>\$ 3,399,360</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Notes to Required Supplementary Information – Budgetary Reporting

December 31, 2004

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. All function disbursements of the Utilities are required to be budgeted. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the Osage Municipal Utilities did not amend the budget.

During the year ended December 31, 2004, disbursements did not exceed the amounts budgeted.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Balance Sheets – Other Nonmajor Enterprise Funds

	Internet December 31,		Cable December 31,	
	2004	2003	2004	2003
Assets				
Current Assets				
Cash (Note 1)	\$ 46,958	\$ 83,437	\$ 118,111	\$ 13,599
Inventories (Note 1)	-	-	4,254	6,564
Accounts Receivable - Trade	7,367	10,453	50,505	58,722
Accounts Receivable - Unbilled (Note 1)	4,071	5,662	-	-
Accrued Interest Receivable	-	-	-	-
Prepaid Expenses	54	34	853	866
Total Current Assets	<u>\$ 58,450</u>	<u>\$ 99,586</u>	<u>\$ 173,723</u>	<u>\$ 79,751</u>
Capital Assets, Net (Note 1)	<u>\$ 3,305</u>	<u>\$ 3,842</u>	<u>\$ 34,272</u>	<u>\$ 36,524</u>
Total Assets	<u><u>\$ 61,755</u></u>	<u><u>\$ 103,428</u></u>	<u><u>\$ 207,995</u></u>	<u><u>\$ 116,275</u></u>
Liabilities and Fund Equity				
Excess of Checks Written	\$ -	\$ -	\$ -	\$ -
Customer Meter Deposits	-	-	4,210	4,011
Accounts Payable and Other Liabilities	3,361	2,380	21,440	19,274
Accrued Wages and Employee Benefits	4,869	2,638	5,937	4,654
Unearned Revenue	-	-	46,609	41,848
Accrued Interest	-	-	-	-
Current Portion of Long Term Debt	-	-	-	-
Total Current Liabilities	<u>\$ 8,230</u>	<u>\$ 5,018</u>	<u>\$ 78,196</u>	<u>\$ 69,787</u>
Long Term Debt				
General Obligation Bonds, Net of Current Portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net Assets				
Unreserved	<u>\$ 53,525</u>	<u>\$ 98,410</u>	<u>\$ 129,799</u>	<u>\$ 46,488</u>
Total Net Assets	<u>\$ 53,525</u>	<u>\$ 98,410</u>	<u>\$ 129,799</u>	<u>\$ 46,488</u>
Total Net Assets and Liabilities	<u><u>\$ 61,755</u></u>	<u><u>\$ 103,428</u></u>	<u><u>\$ 207,995</u></u>	<u><u>\$ 116,275</u></u>

See accompanying independent auditors' report.

Schedule 1

Telephony December 31,		Rural Wireless December 31,		Total Nonmajor Enterprise Funds December 31,	
2004	2003	2004	2003	2004	2003
\$ 344,929	\$ 188,469	\$ -	\$ -	\$ 509,998	\$ 285,505
8,341	3,102	-	-	12,595	9,666
199,923	205,458	1,785	-	259,580	274,633
7,432	11,396	-	-	11,503	17,058
-	-	-	-	-	-
1,017	955	25	-	1,949	1,855
<u>\$ 561,642</u>	<u>\$ 409,380</u>	<u>\$ 1,810</u>	<u>\$ -</u>	<u>\$ 795,625</u>	<u>\$ 588,717</u>
<u>\$ 407,527</u>	<u>\$ 420,127</u>	<u>\$ 89,117</u>	<u>\$ -</u>	<u>\$ 534,221</u>	<u>\$ 460,493</u>
<u><u>\$ 969,169</u></u>	<u><u>\$ 829,507</u></u>	<u><u>\$ 90,927</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,329,846</u></u>	<u><u>\$ 1,049,210</u></u>
\$ -	\$ -	\$ 4,928	\$ -	\$ 4,928	\$ -
3,436	4,080	300	-	7,946	8,091
122,223	20,328	2,995	-	150,019	41,982
-	-	-	-	10,806	7,292
23,866	31,689	1,521	-	71,996	73,537
1,270	1,270	-	-	1,270	1,270
35,000	-	-	-	35,000	-
<u>\$ 185,795</u>	<u>\$ 57,367</u>	<u>\$ 9,744</u>	<u>\$ -</u>	<u>\$ 281,965</u>	<u>\$ 132,172</u>
<u>\$ 365,000</u>	<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 365,000</u>	<u>\$ 400,000</u>
<u>\$ 418,374</u>	<u>\$ 372,140</u>	<u>\$ 81,183</u>	<u>\$ -</u>	<u>\$ 682,881</u>	<u>\$ 517,038</u>
<u>\$ 418,374</u>	<u>\$ 372,140</u>	<u>\$ 81,183</u>	<u>\$ -</u>	<u>\$ 682,881</u>	<u>\$ 517,038</u>
<u><u>\$ 969,169</u></u>	<u><u>\$ 829,507</u></u>	<u><u>\$ 90,927</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,329,846</u></u>	<u><u>\$ 1,049,210</u></u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Statements of Revenues, Expenses and  
Changes in Net Asset – Other Nonmajor Enterprise Funds

	Internet		Cable	
	Years ended December 31,		Years ended December 31,	
	2004	2003	2004	2003
Operating Revenues				
Charges for Service	\$ 122,703	\$ 158,344	\$ 539,761	\$ 427,299
Operating Expense				
Business Type Activities	<u>78,395</u>	<u>117,218</u>	<u>457,071</u>	<u>448,612</u>
Operating Income	<u>\$ 44,308</u>	<u>\$ 41,126</u>	<u>\$ 82,690</u>	<u>\$ (21,313)</u>
Non-Operating Revenues (Expenses)				
Interest Income	\$ 807	\$ 306	\$ 673	\$ 38
Interest Expense	<u>-</u>	<u>-</u>	<u>(52)</u>	<u>(4)</u>
Total Non-Operating Revenues (Expenses)	<u>\$ 807</u>	<u>\$ 306</u>	<u>\$ 621</u>	<u>\$ 34</u>
Other Financing Sources (Uses)				
Operating Transfers In	\$ -	\$ -	\$ -	\$ 110,000
Operating Transfers Out	<u>(90,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>\$ (90,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,000</u>
Change In Net Assets	\$ (44,885)	\$ 41,432	\$ 83,311	\$ 88,721
Net Assets-Beginning of Year	<u>98,410</u>	<u>56,978</u>	<u>46,488</u>	<u>(42,233)</u>
Net Assets-End of Year	<u><u>\$ 53,525</u></u>	<u><u>\$ 98,410</u></u>	<u><u>\$ 129,799</u></u>	<u><u>\$ 46,488</u></u>

See accompanying independent auditors' report.

Schedule 2

Telephony		Rural Wireless		Total Nonmajor Enterprise Funds	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2004	2003	2004	2003	2004	2003
\$ 705,897	\$ 597,189	\$ 3,485	\$ -	\$ 1,371,846	\$ 1,182,832
647,743	509,591	12,303	-	1,195,512	1,075,421
\$ 58,154	\$ 87,598	\$ (8,818)	\$ -	\$ 176,334	\$ 107,411
\$ 3,418	\$ 2,918	\$ 1	\$ -	\$ 4,899	\$ 3,262
(15,338)	(15,260)	-	-	(15,390)	(15,264)
\$ (11,920)	\$ (12,342)	\$ 1	\$ -	\$ (10,491)	\$ (12,002)
\$ -	\$ -	\$ 90,000	\$ -	\$ 90,000	\$ 110,000
-	(110,000)	-	-	(90,000)	(110,000)
\$ -	\$ (110,000)	\$ 90,000	\$ -	\$ -	\$ -
\$ 46,234	\$ (34,744)	\$ 81,183	\$ -	\$ 165,843	\$ 95,409
372,140	406,884	-	-	517,038	421,629
\$ 418,374	\$ 372,140	\$ 81,183	\$ -	\$ 682,881	\$ 517,038



Osage Municipal Utilities  
A Component Unit of the City of Osage

Combing Statements of Cash Flows – Other Nonmajor Enterprise Funds

	Internet Years ended December 31,		Cable Years ended December 31,	
	2004	2003	2004	2003
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 127,380	\$ 163,587	\$ 552,938	\$ 415,552
Cash Payments to Suppliers for Goods and Services	(67,356)	(105,435)	(276,188)	(287,316)
Cash Payment to Employees for Goods and Services	(4,433)	(4,096)	(166,104)	(201,992)
Cash Payments for Contributions	(1,772)	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 53,819</u>	<u>\$ 54,056</u>	<u>\$ 110,646</u>	<u>\$ (73,756)</u>
Cash Flows from Non-capital Financing Activities:				
Transfers from Other Funds	\$ -	\$ -	\$ -	\$ 110,000
Transfers to Other Funds	(90,000)	-	-	-
Net Cash Provided (Used) by Non-capital Financing Activities	<u>\$ (90,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,000</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	\$ (1,105)	\$ (2,110)	\$ (6,755)	\$ (22,680)
Interest Paid on Bonds	-	-	(52)	(4)
Net cash Used by Capital Related Financing Activities	<u>\$ (1,105)</u>	<u>\$ (2,110)</u>	<u>\$ (6,807)</u>	<u>\$ (22,684)</u>
Cash Flows from Investing Activities:				
Investment Income	\$ 807	\$ 306	\$ 673	\$ 39
Net Cash Provided by Investing Activities	<u>\$ 807</u>	<u>\$ 306</u>	<u>\$ 673</u>	<u>\$ 39</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (36,479)	\$ 52,252	\$ 104,512	\$ 13,599
Cash and Cash Equivalents at December 31, 2003	83,437	31,185	13,599	-
Cash and Cash Equivalents at December 31, 2004	<u>\$ 46,958</u>	<u>\$ 83,437</u>	<u>\$ 118,111</u>	<u>\$ 13,599</u>
Reconciliation of Operating Income to Net Cash Provided by (Used) Operating Activities:				
Operating Income	\$ 44,308	\$ 41,126	\$ 82,690	\$ (21,313)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation	1,642	5,978	9,007	7,744
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	4,676	5,243	8,217	(40,937)
(Increase) Decrease in Inventory	-	-	2,310	(3,299)
(Increase) Decrease in Other Assets	(20)	(34)	12	(866)
Increase (Decrease) in Accounts Payable and Other Liabilities	3,213	1,743	8,410	(14,585)
Increase (Decrease) in Retainage Payable	-	-	-	(500)
Net Cash Provided (Used) by Operating Activities	<u>\$ 53,819</u>	<u>\$ 54,056</u>	<u>\$ 110,646</u>	<u>\$ (73,756)</u>

See accompanying independent auditors' report.

Schedule 3

Telephony		Rural Wireless		Total Nonmajor Enterprise Funds	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2004	2003	2004	2003	2004	2003
\$ 706,928	\$ 430,649	\$ 3,521	\$ -	\$ 1,390,767	\$ 1,009,788
(349,178)	(341,850)	1,489	-	(691,233)	(734,601)
(177,999)	(161,011)	-	-	(348,536)	(367,099)
-	-	-	-	(1,772)	-
<u>\$ 179,751</u>	<u>\$ (72,212)</u>	<u>\$ 5,010</u>	<u>\$ -</u>	<u>\$ 349,226</u>	<u>\$ (91,912)</u>
\$ -	\$ -	\$ 90,000	\$ -	\$ 90,000	\$ 110,000
-	(110,000)	-	-	(90,000)	(110,000)
<u>\$ -</u>	<u>\$ (110,000)</u>	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ (11,371)	\$ (31,375)	\$ (95,010)	\$ -	\$ (114,241)	\$ (56,165)
(15,338)	(15,261)	(1)	-	(15,391)	(15,265)
<u>\$ (26,709)</u>	<u>\$ (46,636)</u>	<u>\$ (95,011)</u>	<u>\$ -</u>	<u>\$ (129,632)</u>	<u>\$ (71,430)</u>
\$ 3,418	\$ 2,919	\$ 1	\$ -	\$ 4,899	\$ 3,264
<u>\$ 3,418</u>	<u>\$ 2,919</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 4,899</u>	<u>\$ 3,264</u>
\$ 156,460	\$ (225,929)	\$ -	\$ -	\$ 224,493	\$ (160,078)
188,469	414,398	-	-	285,505	445,583
<u>\$ 344,929</u>	<u>\$ 188,469</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 509,998</u>	<u>\$ 285,505</u>
\$ 58,154	\$ 87,598	\$ (8,818)	\$ -	\$ 176,334	\$ 107,411
23,971	21,982	5,893	-	40,513	35,704
9,499	(193,845)	(1,785)	-	20,607	(229,539)
(5,239)	163	-	-	(2,929)	(3,136)
(62)	(955)	(25)	-	(95)	(1,855)
93,428	13,345	9,745	-	114,796	503
-	(500)	-	-	-	(1,000)
<u>\$ 179,751</u>	<u>\$ (72,212)</u>	<u>\$ 5,010</u>	<u>\$ -</u>	<u>\$ 349,226</u>	<u>\$ (91,912)</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Schedules of Operating Revenues – Enterprise Funds

	Light and Power Division	
	Years ended December 31,	
	2004	2003
Operating Revenues		
Rural	\$ 58,121	\$ 59,022
Residential Sales	791,937	778,888
Commercial and Industrial	1,952,636	1,837,679
Public Buildings	14,829	15,606
Interruptibles	-	-
Line Payments, Net	-	-
Bookkeeping Fee - City of Osage	9,000	9,000
Other Operating Revenue	<u>146,106</u>	<u>22,179</u>
Total Operating Revenue	<u>\$ 2,972,629</u>	<u>\$ 2,722,374</u>

See accompanying independent auditors' report.

Schedule 4

Gas Division		Other Nonmajor Enterprise Funds Telecom Division		Total Enterprise Funds	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2004	2003	2004	2003	2004	2003
\$ -	\$ -	\$ -	\$ -	\$ 58,121	\$ 59,022
1,257,830	1,179,289	1,355,095	1,146,548	3,404,862	3,104,725
630,576	592,777	-	-	2,583,212	2,430,456
-	-	-	-	14,829	15,606
746,887	524,901	-	-	746,887	524,901
8,063	7,275	-	-	8,063	7,275
9,000	9,000	-	-	18,000	18,000
44,627	10,439	16,751	36,284	207,484	68,902
<u>\$ 2,696,983</u>	<u>\$ 2,323,681</u>	<u>\$ 1,371,846</u>	<u>\$ 1,182,832</u>	<u>\$ 7,041,458</u>	<u>\$ 6,228,887</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Schedules of Operating Expenses – Enterprise Funds

		Light and Power Division	
		Years ended December 31,	
		2004	2003
Operating Expenses			
Plant Expenses			
Supervision and Labor	\$	68,595	\$ 47,268
Payroll Taxes		23,775	21,590
Fuel		74,855	77,452
Load Management Expense		496	-
Engine Expense		16,093	4,174
Insurance		42,763	36,289
Supplies		16,670	11,822
Power Purchased		1,054,872	1,031,888
Communication Expense		793	751
School and Travel		215	-
Uniforms		4,265	3,002
Maintenance and Materials		4,448	4,865
Total Plant Expenses	\$	1,307,840	\$ 1,239,101
Distribution Expenses			
Supervision and Labor	\$	164,207	\$ 102,305
Payroll Taxes		24,014	22,356
Insurance		43,923	37,214
Truck Expense		10,735	8,539
Tree Removal Expense		697	1,374
Supplies		105,912	100,693
Maintenance, Repairs and Labor		4,314	1,498
Natural Gas Purchase		-	-
Propane Purchases		-	-
School and Travel		-	-
Uniforms		-	-
Safety		-	-
Communication Expense		195	-
Internet, Cable and Phone		-	-
Local Lines		-	-
Utilities		-	-
Miscellaneous		7,066	7,662
Total Distribution Expenses	\$	361,063	\$ 281,641

Schedule 5

Gas Division		Other Nonmajor Enterprise Funds Telecom Division		Total Enterprise Funds	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2004	2003	2004	2003	2004	2003
\$ -	\$ -	\$ -	\$ -	\$ 68,595	\$ 47,268
-	-	-	-	23,775	21,590
-	-	-	-	74,855	77,452
-	-	-	-	496	-
-	-	-	-	16,093	4,174
-	-	-	-	42,763	36,289
-	-	-	-	16,670	11,822
-	-	-	-	1,054,872	1,031,888
-	-	-	-	793	751
-	-	-	-	215	-
-	-	-	-	4,265	3,002
-	-	-	-	4,448	4,865
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,307,840</u>	<u>\$ 1,239,101</u>
\$ 127,795	\$ 109,070	\$ 140,919	\$ 224,279	\$ 432,921	\$ 435,654
16,067	15,024	11,395	13,472	51,476	50,852
35,469	30,998	18,371	25,139	97,763	93,351
6,306	3,638	3,339	3,898	20,380	16,075
-	128	-	-	697	1,502
5,735	11,589	44,268	62,585	155,915	174,867
18,927	26,597	41,381	61,548	64,622	89,643
2,145,482	1,802,257	-	-	2,145,482	1,802,257
1,854	4,613	-	-	1,854	4,613
3,707	3,029	4,630	10,993	8,337	14,022
2,719	2,337	1,658	1,504	4,377	3,841
824	699	1,594	1,314	2,418	2,013
467	583	-	-	662	583
-	-	399,225	325,952	399,225	325,952
-	-	263	32,816	263	32,816
-	-	12,825	14,344	12,825	14,344
-	-	1,769	-	8,835	7,662
<u>\$ 2,365,352</u>	<u>\$ 2,010,562</u>	<u>\$ 681,637</u>	<u>\$ 777,844</u>	<u>\$ 3,408,052</u>	<u>\$ 3,070,047</u>

Light and Power Division		
Years ended December 31,		
	2004	2003
Office and Administration Expenses		
Office Salaries	\$ 90,059	\$ 91,534
Payroll Taxes	15,380	15,101
Use Tax	4,711	2,403
Property Taxes	2,381	2,253
Trustee Fees	1,240	780
Professional Fees	6,222	5,540
New Building Supplies	1,625	1,881
Office and Administration	12,622	13,550
Publication and Advertising	1,603	830
Utility Expense	756	857
Insurance	87,227	81,174
Global Warming Fee	3,154	2,924
Engineering Service	2,500	4,432
Office Supplies and Postage	9,719	12,073
Janitor Services	3,074	3,556
Office Equipment Expense	1,457	492
Uniform Expense	1,890	1,957
Dues	8,259	9,383
Contributions in Lieu of Taxes	46,669	-
Power Quality Expense	-	(930)
Safety Expense	839	564
Energy Efficiency	3,080	3,482
Joint Lease Expense	-	-
Miscellaneous	10,527	7,261
Total Office and Administration Expense	\$ 314,994	\$ 261,097
Other Expense		
Depreciation	\$ 662,973	\$ 648,596
Amortization	11,555	19,241
Total Other Expense	\$ 674,528	\$ 667,837
Total Operating Expenses	\$ 2,658,425	\$ 2,449,676

See accompanying independent auditors' report.

Gas Division		Other Nonmajor Enterprise Funds Telecom Division		Total Enterprise Funds	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2004	2003	2004	2003	2004	2003
\$ 67,192	\$ 45,824	\$ 158,467	\$ 129,091	\$ 315,718	\$ 266,449
19,249	18,055	6,490	2,687	41,119	35,843
1,149	265	3,382	2,018	9,242	4,686
-	-	39,646	25,817	42,027	28,070
1,140	780	2,480	-	4,860	1,560
8,117	3,849	17,644	11,620	31,983	21,009
1,843	-	67	-	3,535	1,881
1,381	6,714	62,627	60,606	76,630	80,870
2,155	820	18,049	2,718	21,807	4,368
756	-	-	-	1,512	857
30,515	21,176	40,761	18,966	158,503	121,316
2,442	-	-	-	5,596	2,924
2,500	-	180	-	5,180	4,432
9,764	12,341	12,810	-	32,293	24,414
391	-	-	-	3,465	3,556
1,403	-	2,020	-	4,880	492
1,881	-	-	-	3,771	1,957
9,606	10,224	1,943	1,963	19,808	21,570
85,908	70,548	1,773	-	134,350	70,548
-	-	-	-	-	(930)
2,267	-	-	-	3,106	564
3,820	-	-	-	6,900	3,482
-	-	100,000	-	100,000	-
6,912	10,741	5,023	6,387	22,462	24,389
<u>\$ 260,391</u>	<u>\$ 201,337</u>	<u>\$ 473,362</u>	<u>\$ 261,873</u>	<u>\$ 1,048,747</u>	<u>\$ 724,307</u>
\$ 63,711	\$ 64,333	\$ 40,513	\$ 35,704	\$ 767,197	\$ 748,633
-	-	-	-	11,555	19,241
<u>\$ 63,711</u>	<u>\$ 64,333</u>	<u>\$ 40,513</u>	<u>\$ 35,704</u>	<u>\$ 778,752</u>	<u>\$ 767,874</u>
<u>\$ 2,689,454</u>	<u>\$ 2,276,232</u>	<u>\$ 1,195,512</u>	<u>\$ 1,075,421</u>	<u>\$ 6,543,391</u>	<u>\$ 5,801,329</u>



Osage Municipal Utilities  
A Component Unit of the City of Osage

Capital Assets

Year ended December 31, 2004

Light and Power Division

Capital Assets	Assets at Cost			Balance 12/31/04	Estimated Life in Years
	Balance 12/31/03	Additions	Eliminations		
Land and Improvements	\$ 56,003	\$ -	\$ -	\$ 56,003	15 to 30
Buildings and Improvements	1,009,121	13,390	-	1,022,511	5 to 30
Generating Equipment and Lines	11,568,824	235,008	-	11,803,832	5 to 40
Construction in Process -					
Light and Power	-	-	-	-	None
Equipment	350,145	71,921	-	422,066	5 to 20
Vehicles	546,924	17,640	-	564,564	5 to 20
Broadband Room	115,951	-	-	115,951	5 to 40
HFC Distribution Center	5,211,367	862	9,080	5,203,149	5 to 40
Construction in Process -					
Telecommunications	-	-	-	-	None
Telecom Equipment	300,626	-	-	300,626	5 to 40
Telecom Truck	21,598	-	-	21,598	5
Iowa Stored Energy Project	35,000	2,500	-	37,500	40
	<u>\$ 19,215,559</u>	<u>\$ 341,321</u>	<u>\$ 9,080</u>	<u>\$ 19,547,800</u>	

Capital Assets	Accumulated Depreciation			Balance 12/31/04	Undepreciated Cost 12/31/04
	Balance 12/31/03	Depreciation for Year	Eliminations		
Land and Improvements	\$ 3,413	\$ 296	\$ -	\$ 3,709	\$ 52,294
Buildings and Improvements	486,305	23,990	-	510,295	512,216
Generating Equipment and Lines	5,550,964	298,039	-	5,849,003	5,954,829
Construction in Process -					
Light and Power	-	-	-	-	-
Equipment	215,773	18,512	-	234,285	187,781
Vehicles	297,734	38,309	-	336,043	228,521
Broadband Room	5,784	3,865	-	9,649	106,302
HFC Distribution Center	378,901	260,611	719	638,793	4,564,356
Construction in Process -					
Telecommunications	-	-	-	-	-
Telecom Equipment	22,546	15,032	-	37,578	263,048
Telecom Truck	6,840	4,319	-	11,159	10,439
Iowa Stored Energy Project	-	-	-	-	37,500
	<u>\$ 6,968,260</u>	<u>\$ 662,973</u>	<u>\$ 719</u>	<u>\$ 7,630,514</u>	<u>\$ 11,917,286</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Capital Assets

Year ended December 31, 2003

Light and Power Division

Capital Assets	Assets at Cost			Balance 12/31/03	Estimated Life in Years
	Balance 12/31/02	Additions	Eliminations		
Land and Improvements	\$ 44,781	\$ 11,222	\$ -	\$ 56,003	15 to 30
Buildings and Improvements	992,234	16,887	-	1,009,121	5 to 30
Generating Equipment and Lines	11,365,171	203,653	-	11,568,824	5 to 40
Construction in Process -					
Light and Power	23,275	-	23,275	-	None
Equipment	346,351	9,867	6,073	350,145	5 to 20
Vehicles	546,924	-	-	546,924	5 to 20
Broadband Room	115,346	605	-	115,951	5 to 40
HFC Distribution Center	4,950,606	260,761	-	5,211,367	5 to 40
Construction in Process -					
Telecommunications	284,206	-	284,206	-	None
Telecom Equipment	300,626	-	-	300,626	5 to 40
Telecom Truck	21,598	-	-	21,598	5
Iowa Stored Energy Project	-	35,000	-	35,000	40
	<u>\$ 18,991,118</u>	<u>\$ 537,995</u>	<u>\$ 313,554</u>	<u>\$ 19,215,559</u>	

Capital Assets	Accumulated Depreciation			Balance 12/31/03	Undepreciated Cost 12/31/03
	Balance 12/31/02	Depreciation for Year	Eliminations		
Land and Improvements	\$ 3,327	\$ 86	\$ -	\$ 3,413	\$ 52,590
Buildings and Improvements	462,915	23,390	-	486,305	522,816
Generating Equipment and Lines	5,257,853	293,111	-	5,550,964	6,017,860
Construction in Process -					
Light and Power	-	-	-	-	-
Equipment	205,613	16,233	6,073	215,773	134,372
Vehicles	260,308	37,426	-	297,734	249,190
Broadband Room	1,922	3,862	-	5,784	110,167
HFC Distribution Center	123,765	255,136	-	378,901	4,832,466
Construction in Process -					
Telecommunications	-	-	-	-	-
Telecom Equipment	7,515	15,031	-	22,546	278,080
Telecom Truck	2,519	4,321	-	6,840	14,758
Iowa Stored Energy Project	-	-	-	-	35,000
	<u>\$ 6,325,737</u>	<u>\$ 648,596</u>	<u>\$ 6,073</u>	<u>\$ 6,968,260</u>	<u>\$ 12,247,299</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Capital Assets

Year ended December 31, 2004

Gas Division

<u>Assets at Cost</u>					
<u>Capital Assets</u>	Balance 12/31/03	Additions	Eliminations	Balance 12/31/04	Estimated Life in Years
Land and Improvements	\$ 20,109	\$ -	\$ -	\$ 20,109	5 to 20
Buildings and Improvements	568,325	2,138	-	570,463	10 to 40
Peak Shaving Plant	232,733	-	-	232,733	10 to 25
Gas Plant, Lines and Meters	787,901	17,861	-	805,762	10 to 33
Construction in Process	-	-	-	-	none
Equipment	278,824	17,101	-	295,925	2 to 25
Vehicles	142,964	-	10,738	132,226	3 to 20
Iowa Stored Energy Project	35,000	2,500	-	37,500	40
	<u>\$ 2,065,856</u>	<u>\$ 39,600</u>	<u>\$ 10,738</u>	<u>\$ 2,094,718</u>	
<u>Accumulated Depreciation</u>					
<u>Capital Assets</u>	Balance 12/31/03	Depreciation for Year	Eliminations	Balance 12/31/04	Undepreciated Cost 12/31/04
Land and Improvements	\$ 1,222	\$ 281	\$ -	\$ 1,503	\$ 18,606
Buildings and Improvements	84,619	15,208	-	99,827	470,636
Peak Shaving Plant	217,222	4,166	-	221,388	11,345
Gas Plant, Lines and Meters	653,503	13,573	-	667,076	138,686
Construction in Process	-	-	-	-	-
Equipment	167,994	23,459	-	191,453	104,472
Vehicles	111,925	7,024	10,738	108,211	24,015
Iowa Stored Energy Project	-	-	-	-	37,500
	<u>\$ 1,236,485</u>	<u>\$ 63,711</u>	<u>\$ 10,738</u>	<u>\$ 1,289,458</u>	<u>\$ 805,260</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Capital Assets

Year ended December 31, 2003

Gas Division

<u>Assets at Cost</u>					
<u>Capital Assets</u>	Balance 12/31/02	Additions	Eliminations	Balance 12/31/03	Estimated Life in Years
Land and Improvements	\$ 8,887	\$ 11,222	\$ -	\$ 20,109	5 to 20
Buildings and Improvements	537,502	30,823	-	568,325	10 to 40
Peak Shaving Plant	232,733	-	-	232,733	10 to 25
Gas Plant, Lines and Meters	786,813	1,088	-	787,901	10 to 33
Construction in Process	29,071	-	29,071	-	none
Equipment	289,028	283	10,487	278,824	2 to 25
Vehicles	142,964	-	-	142,964	3 to 20
Iowa Stored Energy Project	-	35,000	-	35,000	40
	<u>\$ 2,026,998</u>	<u>\$ 78,416</u>	<u>\$ 39,558</u>	<u>\$ 2,065,856</u>	
<u>Accumulated Depreciation</u>					
<u>Capital Assets</u>	Balance 12/31/02	Depreciation for Year	Eliminations	Balance 12/31/03	Undepreciated Cost 12/31/03
Land and Improvements	\$ 1,152	\$ 70	\$ -	\$ 1,222	\$ 18,887
Buildings and Improvements	69,726	14,893	-	84,619	483,706
Peak Shaving Plant	213,056	4,166	-	217,222	15,511
Gas Plant, Lines and Meters	640,409	13,094	-	653,503	134,398
Construction in Process	-	-	-	-	-
Equipment	154,251	24,230	10,487	167,994	110,830
Vehicles	104,045	7,880	-	111,925	31,039
Iowa Stored Energy Project	-	-	-	-	35,000
	<u>\$ 1,182,639</u>	<u>\$ 64,333</u>	<u>\$ 10,487</u>	<u>\$ 1,236,485</u>	<u>\$ 829,371</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Capital Assets

Year ended December 31, 2004

Telecom Division

Capital Assets	Assets at Cost			Balance 12/31/04	Estimated Life in Years
	Balance 12/31/03	Additions	Eliminations		
Internet Equipment	\$ 73,722	\$ 1,105	\$ -	\$ 74,827	3 to 40
Cable Buildings and Improvements	2,535	-	-	2,535	50
Cable HFC Distribution System	10,796	-	-	10,796	10 to 33
Cable Equipment	30,021	6,755	-	36,776	3 to 20
Cable Vehicles	1,295	-	-	1,295	3 to 5
Telephony Building and Improvements	2,535	-	-	2,535	50
Telephony HFC Distribution System	425,318	-	-	425,318	20
Telephony Organizational Costs	2,000	-	-	2,000	15
Telephony Equipment	19,345	11,371	-	30,716	10 to 20
Rural Wireless Organizational Costs	-	40,476	-	40,476	20
Rural Wireless Equipment	-	14,619	-	14,619	3 to 20
Rural Wireless Premise Equipment	-	39,915	-	39,915	3 to 20
	<u>\$ 567,567</u>	<u>\$ 114,241</u>	<u>\$ -</u>	<u>\$ 681,808</u>	

Capital Assets	Accumulated Depreciation			Balance 12/31/04	Undepreciated Cost 12/31/04
	Balance 12/31/03	Depreciation for Year	Eliminations		
Internet Equipment	\$ 69,880	\$ 1,643	\$ -	\$ 71,523	\$ 3,304
Cable Buildings and Improvements	51	50	-	101	2,434
Cable HFC Distribution System	573	540	-	1,113	9,683
Cable Equipment	7,197	8,158	-	15,355	21,421
Cable Vehicles	302	259	-	561	734
Telephony Building and Improvements	51	50	-	101	2,434
Telephony HFC Distribution System	27,796	21,266	-	49,062	376,256
Telephony Organizational Costs	111	133	-	244	1,756
Telephony Equipment	1,113	2,522	-	3,635	27,081
Rural Wireless Organizational Costs	-	337	-	337	40,139
Rural Wireless Equipment	-	1,717	-	1,717	12,902
Rural Wireless Premise Equipment	-	3,838	-	3,838	36,077
	<u>\$ 107,074</u>	<u>\$ 40,513</u>	<u>\$ -</u>	<u>\$ 147,587</u>	<u>\$ 534,221</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Capital Assets

Year ended December 31, 2003

Telecom Division

Capital Assets	Assets at Cost			Balance 12/31/03	Estimated Life in Years
	Balance 12/31/02	Additions	Eliminations		
Internet Equipment	\$ 71,612	\$ 2,110	\$ -	\$ 73,722	3 to 40
Cable Buildings and Improvements	2,535	-	-	2,535	50
Cable HFC Distribution System	9,933	863	-	10,796	10 to 33
Cable Equipment	8,204	21,817	-	30,021	3 to 20
Cable Vehicles	1,295	-	-	1,295	3 to 5
Telephony Building and Improvements	2,535	-	-	2,535	50
Telephony HFC Distribution System	408,925	16,393	-	425,318	20
Telephony Organizational Costs	-	2,000	-	2,000	15
Telephony Equipment	6,363	12,982	-	19,345	10 to 20
Rural Wireless Organizational Costs	-	-	-	-	20
Rural Wireless Equipment	-	-	-	-	3 to 20
Rural Wireless Premise Equipment	-	-	-	-	3 to 20
	<u>\$ 511,402</u>	<u>\$ 56,165</u>	<u>\$ -</u>	<u>\$ 567,567</u>	

Capital Assets	Accumulated Depreciation			Balance 12/31/03	Undepreciated Cost 12/31/04
	Balance 12/31/02	Depreciation for Year	Eliminations		
Internet Equipment	\$ 63,902	\$ 5,978	\$ -	\$ 69,880	\$ 3,842
Cable Buildings and Improvements	-	51	-	51	2,484
Cable HFC Distribution System	55	518	-	573	10,223
Cable Equipment	281	6,916	-	7,197	22,824
Cable Vehicles	43	259	-	302	993
Telephony Building and Improvements	-	51	-	51	2,484
Telephony HFC Distribution System	6,970	20,826	-	27,796	397,522
Telephony Organizational Costs	-	111	-	111	1,889
Telephony Equipment	119	994	-	1,113	18,232
Rural Wireless Organizational Costs	-	-	-	-	-
Rural Wireless Equipment	-	-	-	-	-
Rural Wireless Premise Equipment	-	-	-	-	-
	<u>\$ 71,370</u>	<u>\$ 35,704</u>	<u>\$ -</u>	<u>\$ 107,074</u>	<u>\$ 460,493</u>

See accompanying independent auditors' report.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Licensed Vehicles  
Unaudited

Year ended December 31, 2004

Light and Power Division

<u>Type</u>	<u>Year</u>	<u>Make</u>	<u>License Number</u>
Boom Truck	1977	Ford	71373
Utility Truck – Pickup	1990	Chevrolet	75509
Boom Truck	1994	Ford	77773
Pole Trailer	1996	Homemade	88504
Digger Derrick	1997	Ford	80273
Utility Truck – Pickup	1998	Dodge	71372
Quad Trailer	1998	Q 600	88834
Puller Tensioner Trailer	1998	DPT 30B	88833
Utility Truck – Pickup	1999	GMC	89914
Service Truck	1999	GMC	83090
Boom Truck	2001	Chevrolet	71375
Excavator Trailer	2001	Trail King	89474
Utility Truck – Telecom Pickup	2002	Chevrolet	85440

Gas Division

Dump Truck	1984	Ford	79817
Utility Truck	1987	Chevrolet	71371
Tree Planter	1993	Vermeer	88083
Office Car	1994	Ford	79951
Pipe Trailer	1994	Homemade	88425
Service Truck	1995	Dodge	78503
Bobcat Trailer	1995	Homemade	88308
Office Minivan	1996	Ford	71378
Service Truck	1999	Ford	82682
Pipe Trailer	2000	Homemade	89152

Telecom Division

Minivan	1996	Dodge	86762
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See accompanying independent auditors' report.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Comparative Kilowatt Hours  
Unaudited

Light and Power Division

For the Years ended December 31, 1990 through December 31, 2004

<u>Year Ended December 31,</u>	<u>Kilowatt Hours Generated</u>	<u>Kilowatt Hours Purchased</u>	<u>Total Kilowatt Hours</u>	<u>Annual Kilowatt Hours Increase (Decrease)</u>	<u>Percent of Increase (Decrease)</u>
1990	195,800	34,914,806	35,110,606	1,628,843	4.86
1991	610,800	35,807,244	36,418,044	1,307,438	3.72
1992	335,400	35,384,218	35,719,618	( 698,426)	(1.92)
1993	333,800	37,725,285	38,059,085	2,339,467	6.55
1994	497,500	40,560,924	41,058,424	2,999,339	7.88
1995	875,500	43,360,285	44,235,785	3,177,361	7.74
1996	800,250	44,184,580	44,984,830	749,045	1.69
1997	549,520	45,186,175	45,735,695	750,865	1.67
1998	894,890	46,596,929	47,491,819	1,756,124	3.84
1999	1,535,101	46,692,000	48,227,101	735,282	1.55
2000	1,818,897	48,355,200	50,174,097	1,946,996	4.04
2001	2,296,623	48,501,131	50,797,754	623,657	1.24
2002	781,178	49,953,600	50,734,778	( 62,976)	(0.12)
2003	999,120	50,807,677	51,806,797	1,072,019	2.11
2004	731,018	52,793,581	53,524,599	1,717,802	3.32

See accompanying independent auditors' report.



Osage Municipal Utilities  
A Component Unit of the City of Osage

Comparative Operating Statistics  
Unaudited

Gas Division

For the Years ended December 31, 1990 through December 31, 2004

Consumer Data

<u>Year Ended December 31,</u>	<u>Heating Consumers</u>		<u>Total Consumers</u>	
	<u>Residential</u>	<u>Nonresidential</u>	<u>Residential</u>	<u>Nonresidential</u>
1990	1,389	196	1,403	203
1991	1,424	192	1,439	198
1992	1,428	200	1,443	209
1993	1,444	199	1,458	209
1994	1,446	202	1,459	212
1995	1,457	200	1,468	210
1996	1,471	204	1,481	214
1997	1,481	211	1,492	221
1998	1,493	214	1,503	224
1999	1,506	216	1,512	225
2000	1,515	217	1,526	226
2001	1,523	222	1,534	230
2002	1,537	221	1,548	229
2003	1,544	225	1,555	242
2004	1,553	233	1,565	250

Billing Data

<u>Year Ended December 31,</u>	<u>Residential</u>		<u>Commercial</u>		<u>Standby</u>	
	<u>Amount</u>	<u>MCF (1)</u>	<u>Amount</u>	<u>MCF (1)</u>	<u>Amount</u>	<u>MCF (1)</u>
1990	\$ 678,942	155,167	\$281,574	67,512	\$270,861	81,660
1991	\$ 713,609	167,090	\$300,575	74,119	\$288,276	86,160
1992	\$ 593,936	153,933	\$249,691	68,061	\$281,595	94,587
1993	\$ 690,925	171,566	\$336,158	88,407	\$231,796	74,664
1994	\$ 733,788	163,399	\$362,972	86,487	\$203,753	58,589
1995	\$ 704,277	167,318	\$345,864	86,840	\$300,109	96,177
1996	\$ 763,742	179,473	\$346,428	85,189	\$333,220	100,551
1997	\$ 850,400	167,041	\$395,344	80,844	\$386,724	98,835
1998	\$ 643,333	140,178	\$313,188	71,325	\$294,678	83,203
1999	\$ 650,939	143,900	\$328,910	76,751	\$298,119	81,389
2000	\$ 811,621	144,775	\$426,606	79,081	\$386,495	71,704
2001	\$1,434,837	154,619	\$746,438	82,203	\$533,385	79,082
2002	\$1,077,415	147,528	\$562,619	80,392	\$442,895	77,903
2003	\$1,157,292	151,024	\$588,351	79,744	\$493,646	78,281
2004	\$1,219,129	142,242	\$612,513	73,933	\$760,702	101,179

(1)= MCF-1,000 cubic feet

See accompanying independent auditors' report.

Schedule 10Osage Municipal Utilities  
A Component Unit of the City of OsageDistribution of Energy  
Unaudited

## Light and Power Division

Year ended December 31, 2004

	<u>Meters</u>	<u>Kilowatt Hours</u>
Rural	91	994,316
Residential	1,681	12,977,819
Commercial	304	36,189,806
Public Authority	19	218,860
Resale	-	-
Rural Security Lighting on Flat Rate per Month, Unmetered	<u>156</u>	<u>114,568</u>
	<u>2,251</u>	50,495,369
Kilowatt Hours Used for Free Street Lighting		293,485
Kilowatt Hours Used at Plant		743,600
Kilowatt Hours Used at Municipal Building and Donated		201,746
Kilowatt Hours Lost and Unaccounted For		<u>1,790,399</u>
		<u>53,524,599</u>
Kilowatt Hours Purchased		52,793,581
Kilowatt Hours Generated		<u>731,018</u>
		<u>53,524,599</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Distribution of Energy  
Unaudited

Light and Power Division

Year ended December 31, 2003

	<u>Meters</u>	<u>Kilowatt Hours</u>
Rural	89	1,033,450
Residential	1,669	12,995,279
Commercial	305	34,114,631
Public Authority	21	229,674
Resale	-	-
Rural Security Lighting on Flat Rate per Month, Unmetered	<u>154</u>	<u>121,153</u>
	<u>2,238</u>	48,494,187
Kilowatt Hours Used for Free Street Lighting		299,230
Kilowatt Hours Used at Plant		824,859
Kilowatt Hours Used at Municipal Building and Donated		200,662
Kilowatt Hours Lost and Unaccounted For		<u>1,987,859</u>
		<u>51,806,797</u>
Kilowatt Hours Purchased		50,807,677
Kilowatt Hours Generated		<u>999,120</u>
		<u>51,806,797</u>

See accompanying independent auditors' report.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Information Required by the Bond Resolution  
Unaudited

December 31, 2004

The following insurance policies were in force at December 31, 2004:

		<u>Insurer</u>	
		Employers Mutual Casualty Company	
<u>Coverage</u>			<u>Amount</u>
Property, including buildings, generating equipment and other contents, 90% Coinsurance #1 Blanket Limit \$3,388,037.	4/1/04 – 4/1/05		\$ 3,388,037
Property, including buildings, generating equipment and other contents, 90% Coinsurance #2 Blanket Limit \$1,099,423.	4/1/04 – 4/1/05		1,099,423
Property, including buildings, generating equipment and other contents, 90% Coinsurance #3 Blanket Limit \$15,417,814.	4/1/04 – 4/1/05		15,417,814
General Liability			
Aggregate Limit	4/1/04 – 4/1/05		2,000,000
Operations Limit	4/1/04 – 4/1/05		2,000,000
Personal Injury	4/1/04 – 4/1/05		1,000,000
Each Occurrence	4/1/04 – 4/1/05		1,000,000
Fire Damage Limit	4/1/04 – 4/1/05		100,000
Medical Insurance	4/1/04 – 4/1/05		5,000
Contractors Equipment	4/1/04 – 4/1/05		166,871
EDP Equipment	4/1/04 – 4/1/05		163,995
Miscellaneous Property	4/1/04 – 4/1/05		83,214
Theft			
Indoor	4/1/04 – 4/1/05		13,000
Outdoor	4/1/04 – 4/1/05		13,000

Osage Municipal Utilities  
A Component Unit of the City of Osage

Information Required by the Bond Resolution  
Unaudited

December 31, 2004

Automobile – Liability	4/1/04 – 4/1/05	1,000,000
Uninsured Motorist	4/1/04 – 4/1/05	50,000
Underinsured Motorist	4/1/04 – 4/1/05	50,000
Worker's Compensation		
Injury by Accident (employee)	4/1/04 – 4/1/05	500,000
Injury by Disease (employee)	4/1/04 – 4/1/05	500,000
Injury by Disease (limit)	4/1/04 – 4/1/05	500,000
Commercial Umbrella		
Retained Limit	4/1/04 – 4/1/05	10,000
Occurrence Limit	4/1/04 – 4/1/05	5,000,000
Aggregate Limit	4/1/04 – 4/1/05	5,000,000
Linebacker		
Each Loss	4/1/04 – 4/1/05	1,000,000
Aggregate	4/1/04 – 4/1/05	1,000,000
Deductible	4/1/04 – 4/1/05	2,500

Cincinnati Insurance Company

Boiler and Machinery		
Comprehensive Limit	4/1/04 – 4/1/05	15,500,000

State Auto

Surety Bond		
Employee Theft	3/25/04 – 3/25/05	150,000
Deductible	3/25/04 – 3/24/05	500

Osage Municipal Utilities  
A Component Unit of the City of Osage

Information Required by the Bond Resolution  
Unaudited

December 31, 2004

Rates in effect at December 31, 2004:

Electric Rates

Residential	Residential Rate Schedule is available to any consumer for domestic purpose only. Monthly service charge: \$3.50 per month First 1,000 kilowatt hours per month Excess kilowatt hours per month	5.00¢/kwh 4.40¢/kwh
Small General Service	Small General Service is available to any customer for single or three phase service supplied through one meter, where no more than two monthly 15 minute demands of 20 kilowatts or more shall have occurred in the previous twelve months. Monthly service charge: \$4.00 per month. First 1,000 kilowatt hours per month Next 1,000 kilowatt hours per month Excess kilowatt hours per month	6.18¢/kwh 5.46¢/kwh 5.25¢/kwh
Large General Service	Large General Service is available to any customer where two or more monthly 15 minute demands over the previous twelve month period shall have been 20 kilowatts or more. Demand - Maximum 15 minute demand during the billing period, but not less than 75% of the highest demand occurring during the preceding eleven months. Minimum - Demand Billing, but not less than for 20 kilowatts per month, or 75% of highest 15 minute demand recorded in the preceding eleven months, whichever is the greater.  Demand Charge: All kilowatts \$4.00 per month. Energy Charge First 20,000 kilowatt hours per month Excess kilowatt hours per month	3.71¢/kwh 3.51¢/kwh
Nonprofit Organizations	Certified nonprofit organizations; churches, service clubs, etc., will be billed for electrical service under the Small General Service or Large General Service. User classification will be determined by usage criteria.	

Osage Municipal Utilities  
A Component Unit of the City of Osage  
Information Required by the Bond Resolution  
Unaudited

December 31, 2004

2004 Payments	\$542,100	
2004 Net Revenues Light and Power*	\$988,732	
Ratio of Debt Service to Net Revenues		54.8%

\* As defined by bond resolution, net revenues consist of operating income, excluding depreciation and amortization.

Osage Municipal Utilities  
A Component Unit of the City of Osage  
Information Required by the Bond Resolution  
Unaudited

December 31, 2004

	<u>Reserve for Debt Service</u>	<u>Reserve for Sinking Fund</u>	<u>Reserve for System Improvement</u>	<u>Total</u>
Balance, Beginning of Year	\$ 215,000	\$ 148,022	\$ 100,000	\$ 463,022
Deposits	-	-	-	-
Withdrawals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance, End of Year	<u>\$ 215,000</u>	<u>\$ 148,022</u>	<u>\$ 100,000</u>	<u>\$ 463,022</u>

See accompanying independent auditors' report.



## Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting

To the Board of Trustees Osage Municipal Utilities  
A Component Unit of the City of Osage

We have audited the component unit financial statements of the Osage Municipal Utilities as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated January 21, 2005. Our report expressed an unqualified opinion on the component unit financial statements which were prepared in conformity with U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the Osage Municipal Utilities' component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of component unit financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the component unit financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item III-E-04.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Osage Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Osage Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the component unit financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Osage Municipal Utilities and other parties to whom the Utilities may report. However, this report is a matter of public record and its distribution is not limited. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Osage Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P.L.C.  
Osage, Iowa  
January 21, 2005

Osage Municipal Utilities  
A Component Unit of the City of Osage

Schedule of Findings

Year ended December 31, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the component unit financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the component unit financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the component unit financial statements.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Schedule of Findings

Year ended December 31, 2004

Part II: Findings Related to the Component Unit Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that each of the office personnel has control over several incompatible office and accounting functions.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Osage Municipal Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Schedule of Findings

Year ended December 31, 2004

Part III: Other Findings Related to Statutory Reporting:

III-A-04 Official Depositories – A resolution naming official depositories has been approved by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2004.

III-B-04 Certified Budget – Disbursements during the year ended December 31, 2004, did not exceed the amounts budgeted.

III-C-04 Questionable Expenditures – No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

III-D-04 Travel Expenses – No expenditures of the Utilities' money for travel expenses of spouses of the Utilities' officials or employees were noted.

III-E-04 Business Transactions – Business transactions between the Osage Municipal Utilities and its officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jeff Schultz, Gas Superintendent, North Iowa Woodworks	Cabinets and Communication Tower	\$2,621

In accordance with Chapter 362.5(10) of the Code of Iowa, the amount appears to represent a conflict of interest. The amount is over \$1,500 and bids were not taken.

Recommendation – The Utilities should consult legal counsel to determine the disposition of this matter.

Response – The Utilities will contact legal counsel.

Conclusion – Response accepted.

III-F-04 Bond Coverage – Surety bond coverage of the Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-04 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

III-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted.

III-I-04 Revenue Bonds – The Utilities has properly established the reserves for sinking fund, debt service and system improvement required by the Electric Revenue Bond resolution.

Other Supplementary Information

Osage Municipal Utilities  
A Component Unit of the City of Osage



Required Supplementary Information

## Enterprise Fund Financial Statements